



WEEKLY ECONOMIC DIGEST

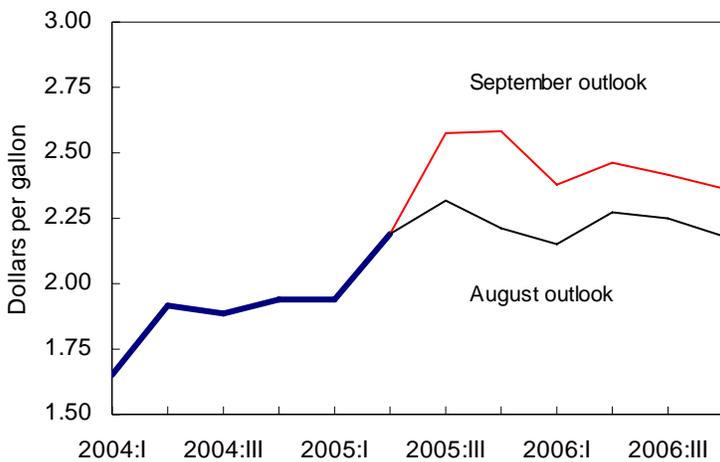


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

September 13, 2005

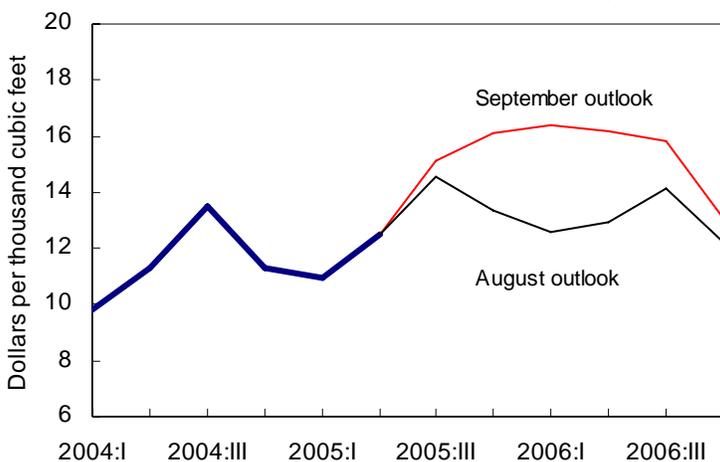
Katrina Boosts Energy Prices and Is Likely to Slow Growth Temporarily

Near-Term Outlook for the Average Retail Price of Regular Gasoline (Quarterly Averages)



Source: Energy Information Agency, U.S. Department of Energy.

Near-Term Outlook for the Average Retail Price of Natural Gas (Quarterly Averages)



Source: Energy Information Agency, U.S. Department of Energy.

- **Refining capacity is being restored.** Progress in restoring oil and gas refining activity lost to Katrina has been faster than originally anticipated. By the end of this week, all but about 14 percent of capacity is expected to be restored. However, the remaining lost capacity is not likely to be restored for months.
- **Already-high gasoline prices were pushed higher.** In the first week after the hurricane, the average U.S. retail price of gasoline rose 46 cents to \$3.07. The price last week was \$2.96 per gallon, and the Department of Energy (DOE) expects gasoline prices to continue to abate in coming months (see top chart). However, the average price of \$2.58 per gallon in the fourth quarter that DOE is now forecasting is 37 cents above what the department was forecasting just a month earlier.
- **Natural gas prices and residential bills are likely to be much higher this winter.** DOE has sharply raised its estimate of the price of natural gas for residential use (see bottom chart). Owing partly to Katrina-related supply disruptions, but also to new estimates of strong winter demand, DOE forecasters now expect the price of residential natural gas to average \$16.23 per thousand cubic feet over the October-to-March period, up \$3.27 from their forecast a month ago. The Department predicts that consumer expenditures on natural gas will be 52 percent higher this winter than they were last winter.
- **The economy is expected to slow temporarily.** Forecasters expect that the damage from Katrina will initially slow economic growth and job creation but that recovery efforts will stimulate a subsequent rebound. The Congressional Budget Office (CBO) estimates that economic growth will be reduced by ½ to 1 percentage point (annual rate) in the second half of 2005 and employment growth may be reduced by as much as 400,000 jobs. CBO expects both to rebound in the first half of 2006.

The Economy at a Glance	Aug	Jul	Jun	May	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.3	3.8	3.3	4.0	4.2	2.7
Industrial Production (% growth)*	n.a.	1.2	10.0	3.7	1.4	3.6	4.5	2.7	4.2	0
Capacity Utilization (level, %)*	n.a.	79.7	79.8	79.2	79.3	79.3	78.8	78.2	78.1	75.5
Civilian Unemployment Rate (level, %)	4.9	5.0	5.0	5.1	5.1	5.3	5.4	5.5	5.5	6.0
Housing Starts (thousands)	n.a.	2042	2045	2041	2038	2083	1973	1974	1950	1854
Real Disposable Personal Income (% growth)	n.a.	0	6.4	2.1	2.0	1.0 [#]	4.3 [#]	2.8	3.1 [#]	2.4
Retail Sales (% growth)*	n.a.	23.4	22.4	-3.9	10.6	6.0	10.4	6.5	7.2	4.3
Personal Saving Rate (level, %)	n.a.	-0.6	0	0.5	0.3	0.5	1.2 [#]	1.2	1.5 [#]	2.1
Inflation & Productivity										
CPI-U Inflation, all items (% growth)*	n.a.	6.2	0	-1.2	4.2	2.4	3.6	1.6	2.7	2.3
Core CPI-U Inflation (% growth)*	n.a.	1.2	1.2	1.2	2.0	2.6	2.3	1.7	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	2.4	3.2	4.1	3.9	4.0
Output per Hour (% growth)	—	—	—	—	1.8	3.2	2.5	1.3	3.4	3.8
Financial Markets										
T-bill Rate, 3-month (level, %)	3.44	3.22	2.97	2.84	2.86	2.54	2.01	1.49	1.37	1.01
T-note Rate, 10-years (level, %)	4.26	4.18	4.00	4.14	4.16	4.30	4.17	4.30	4.27	4.01
Federal Funds Rate (level, %)	3.50	3.26	3.04	3.00	2.94	2.47	1.95	1.43	1.35	1.13
Dow Jones Industrial Avg (index level)	10554	10545	10487	10377	10382	10648	10362	10130	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **Producer Price Indexes: August 2005** [Release: Tuesday, September 13]
- **U.S. International Trade in Goods and Services: July 2005** [Release: Tuesday, September 13]
- **Monthly Treasury Statement of Receipts and Outlays: August 2005** [Release: Tuesday, September 13]
- **Advance Monthly Sales for Retail and Food Services: August 2005** [Release: Wednesday, September 14]
- **Industrial Production and Capacity Utilization: August 2005** [Release: Wednesday, September 14]
- **Consumer Price Index: August 2005** [Release: Thursday, September 15]
- **U.S. International Transactions: Second Quarter 2005** [Release: Friday, September 16]